97-84033-16

Chamber of Commerce of the U.S. of America

European problems and their relation to American...

[Washington? D.C.]

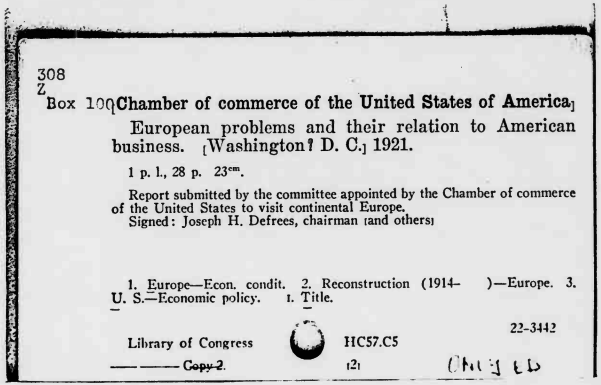
1921

97-84033-16
MASTER NEGATIVE #

COLUMBIA UNIVERSITY LIBRARIES
PRESERVATION DIVISION

BIBLIOGRAPHIC MICROFORM TARGET

ORIGINAL MATERIAL AS FILMED - EXISTING BIBLIOGRAPHIC RECORD



308
Z
Box 100 [Chamber of commerce of the United States of America.]
European problems and their relation to American business. [Washington? D. C.] 1921.
1 p. l., 28 p. 23cm.
Report submitted by the committee appointed by the Chamber of commerce of the United States to visit continental Europe.
Signed: Joseph H. Defrees, chairman [and others]

1. Europe—Econ. condit. 2. Reconstruction (1914–)—Europe. 3. U. S.—Economic policy. I. Title.

Library of Congress HC57.C5 22-3442
Copy 2. [2] Ohio St LD

RESTRICTIONS ON USE: Reproductions may not be made without permission from Columbia University Libraries.

TECHNICAL MICROFORM DATA

FILM SIZE: 35 mm REDUCTION RATIO: 11:1 IMAGE PLACEMENT: IA (IIA) IB IIB

DATE FILMED: 3-3-97 INITIALS: MB

TRACKING # : 22197

FILMED BY PRESERVATION RESOURCES, BETHLEHEM, PA.

Gift of the President

Bx

European Problems
and Their Relation to American Business

308
Z
Bay 100

September, 1921

The committee appointed by the Chamber of Commerce of the United States to visit Continental Europe for the purpose of observing conditions has presented the accompanying report to the Board of Directors of the Chamber. The members of the committee were:

Joseph H. Defrees, President, Chamber of Commerce of the United States; John H. Fahey, former President, Chamber of Commerce of the United States, and Director of the International Chamber of Commerce; Silas H. Strawn, Chairman of the Board, Montgomery Ward & Co.; Robert P. Lamont, President, American Steel Foundries Co.; John J. O'Connor, Manager, Finance Department, Chamber of Commerce of the United States; and James H. Douglas, Jr., Secretary.

The report is now published for the information of the members of the National Chamber.

HG1 .U5 1923

European Problems and Their Relation to American Business

Your Committee appointed to visit Continental Europe to observe present business and financial conditions respectfully submits the following:

Members of the Committee participated in the meetings of the International Chamber of Commerce held in London in June last, and there came in contact with business men and bankers from twenty countries. Subsequently, the committee visited Germany, Czechoslovakia, Austria, and France, and held conferences with government leaders, bankers, merchants, manufacturers, economists, and representatives of labor.

The time at the disposal of your Committee did not permit detailed investigations of economic conditions in the countries visited, but there was ample opportunity to obtain definite impressions as to the outstanding factors of the financial and business situation. It was most significant that in all of the countries there was little variance of opinion as to the conditions which dominate the world's business, the causes for these conditions, and as to what should be done to relieve the present depression and restore the more normal operations of commerce.

There is evidence on every hand that the world is now operating on a basis of less than half of the prewar standard, although a few industries are enjoying full or nearly full activity in some countries.

There are no dependable figures to measure the great

decline in consumption, but European economists whose opinions are highly regarded declare that the consumption of three hundred million people has been reduced, on the average, to almost thirty per cent of what it was previous to the war.

There is a great need of raw materials, food, clothing, and all kinds of manufactured products. Millions of people want the commodities which others could supply. They are unable to buy because their money is so reduced in value that it has little buying power. Every purchase at the present high rates of exchange means payment at a price which is nearly prohibitive. This generally means the issue of more paper money and consequent further contraction of the already limited buying power.

Improvement of the situation and the restoration of buying power is not dependent entirely on the extension of credit by the countries wishing to sell. A certain amount of long time credit may be utilized with safety. In general, however, a buyer in a country whose currency has seriously depreciated cannot make purchases in the United States, and promise payment in dollars six months or a year hence, because it is wholly impossible to estimate what must be paid for those dollars when payment is due. Such a purchaser can assume the risk only when there is reasonable stability in the exchange of his country and conditions are such that he may have confidence in the future.

The currencies of the countries affected cannot be very much improved or the exchange situation placed on a more dependable basis without aid in the form of loans which will strengthen the governments' fiscal positions and permit them to stop the issue of further paper money.

The credit and capital of the stronger nations, however, cannot be employed in amounts sufficient to overcome the present crisis without assurance of settled conditions.

In every country your Committee found unanimous

agreement that confidence does not exist because peace is not established, although nearly three years have elapsed since the Armistice.

While marked progress has been made and there has been a surprising degree of improvement in some directions even in the last year, it is apparent that business in Europe has come to a definite pause, and is not likely to resume the movement forward until the armed conflicts which still persist there are stopped and the menace of recurring warfare is removed.

Among the bankers and business men of every country visited, it is the general belief that the establishment of peace and restoration of confidence are impossible without the whole-hearted cooperation of all allied, neutral, and former enemy countries.

Before the war the European countries transacted about two-thirds of the total international business. They purchased more than half of the exports of the United States.

In the resumption of normal economic life in Europe, there are so many questions with which the United States is concerned, that it is almost impossible to say which are of the most importance. There are four subjects, however, to which your Committee believes our people must give greater attention. They are:

The payment of the German reparations.
The United States Army on the Rhine.
The condition of Austria and Central Europe.
What may the United States do to aid in improvement of the general situation.

Preliminary to a review of conditions found by the Committee, it may be helpful to refer briefly to a few well-

known facts which should be kept in mind in considering the present relation of the United States to the rest of the world.

Debts and Foreign Trade

Omitting almost a billion dollars of accrued interest, the other nations owe the United States more than ten billions of dollars, made up roughly of the following amounts:

Great Britain	$4,166,000,000
France	3,351,000,000
Italy	1,648,000,000
Belgium	375,000,000
Russia	193,000,000
Poland	136,000,000
Czechoslovakia	91,000,000
Serbia	51,000,000
Roumania	36,000,000
Austria	24,000,000
Greece	15,000,000
Esthonia	14,000,000
Armenia	12,000,000
Cuba	9,000,000
Finland	8,000,000
Latavia	5,000,000
Lithuania	5,000,000
Hungary	1,700,000
Liberia	26,000

This debt is being increased by accruing interest at the rate of about $1,500,000 a day.

In addition, it is estimated that over $3,000,000,000 is owed to our banks and business men by foreign countries and their citizens.

The foreign trade of the United States developed gradually to large proportions in the period before the war. During the five years prior to 1914 it amounted, on the average, to about $4,000,000,000 a year.

In the fiscal year 1920 the value of our foreign trade was $13,347,000,000, or over a billion dollars a month. In 1921 it dropped more than two billions of dollars to $10,171,000,000, or 23.8 per cent. This loss was divided equally between imports and exports. Our exports dropped from $8,109,000,000 in 1920 to $6,516,000,000 in 1921, or 19.6 per cent, while our imports declined from $5,238,000,000 in 1920 to $3,654,000,000 in 1921, or 32.2 per cent. Lower prices are an important factor in the decreased value of our exports.

The products of our farms and mines represent about two-thirds of our exports. Cotton holds first place and wheat second.

For the year ending June 30, 1921, our export of wheat, including wheat flour (reduced to wheat equivalent), was 364,000,000 bushels and of rye 46,000,000 bushels. During the five fiscal years 1910 to 1914, inclusive, our export of cotton averaged 8,840,000 bales. In the year ending June 30, 1920, there were 7,870,000 bales exported, while in the year ending June 30, 1921, there were but 5,623,000 bales, due to an accumulation of high priced cotton in Europe and to a lack of buying power.

Our exports of bacon, ham, shoulders and lard for the five years 1910 to 1914, inclusive, averaged 824,000,000 pounds; in 1920 the total was 1,665,000,000 pounds, while for the year ending June 30, 1921, the total was 1,400,000,000 pounds. Our exports of food products to Central Europe continue very large.

From the figures quoted respecting these few commodities we assume no member of the Chamber of Commerce of the United States will seriously consider the propositions that this country should isolate itself from Europe, our greatest market, or that the question of our foreign trade does not interest practically every business man, every farmer, and every worker in the United States. The development of our industries requires not simply that our

foreign trade be maintained but that it be persistently expanded.

Payment of the German Reparations

The problem involved in the payment of Reparations is one in which the United States, in common with all other important commercial nations, is greatly concerned.

As the United States has already declared, we believe that Germany should make good, to the utmost limit of her ability, the damage she has wrought. Certainly, the world could not acquiesce in a situation by which the nation which was the primary cause of so much suffering would escape the consequences of her aggression by paying a small part of the cost, while the greater portion is left as a burden upon the peoples she attacked.

It is inevitable that the people of Germany must accept the penalty and must endure privations for some years, in order to repair so far as they may the injury caused by the madness of the government they supported. There is evidence that many of the German people believe that she must pay to the full extent of her ability, for the damage done, and realize they must, through hard work, contribute their share. It seems clear that the present government and its supporters are conscientiously trying to solve the problem and meet the required payments.

There is, however, an unfortunately large number of men representing industrial and financial interests who, believing that the bulk of these payments must come out of them, refuse to regard the settlement arrived at as final. They are strongly opposed to the payment of the sums fixed, insist upon the inability of Germany to pay, and campaign persistently against government leaders and all others in Germany who contend that the indemnity or anything like it must be paid. They are supported by the Monarchists and the Militarists, and while these groups are in the minority,

they are powerful influences. If they should secure political ascendency, even temporarily, and attempt to repudiate or evade the Reparations settlement, it is inevitable that a crisis will develop which will be a further menace to peace. The danger of such an occurrence requires that the United States and Allied Nations shall at all times present a solid front, and thus carry conviction that escape from reasonable demands will not be permitted. Unless these nations thus act in concert, France will be impelled, in self-defence, to use military pressure, as she has in the past.

Your Committee feels unable to express an opinion as to whether Germany can pay the amount of the indemnity fixed. It believes that only experience will demonstrate Germany's ability in this respect, and this must depend in a large degree upon the promptness with which the normal business of the world is restored, upon Germany's success in securing outside financial assistance, and her capacity to put her fiscal affairs in order.

While there may be many differences of view as to the power of Germany to meet the indemnity, we have the opinion of some of the best of the German leaders that it can be paid and will be paid, if Germany is given a reasonable chance.

The terms of the Reparations settlement are sufficiently elastic to permit of giving Germany full consideration in the event of difficulties, provided she sincerely tries to meet her obligations.

It is essential that Germany shall have a fair chance to produce and distribute, if she is to meet the necessary payments, and it is in the interest of all of the countries,—Germany in common with the others,—that the payment of the Reparations be so financed as to cause the minimum of dislocation of world commerce.

Your Committee questions whether the Reparations Commission, on which it believes the United States should

be represented, has sufficiently broad powers to meet the situation. The Commission was organized to fix the indemnity and enforce its payment. The effect of such payments on international trade and finance was not realized sufficiently when the Commission was constituted.

Loans between the governments, in connection with reconstruction, seem no longer feasible. Therefore, financing in connection with Reparation bonds and payments becomes the problem of private business. Your Committee is of the opinion that an organization representative of the financial and business interests of the leading countries should be constituted to work continuously with the Reparations Commission in dealing with this and other great financial problems which must be met during the next ten years.

In the absence of international machinery designed to meet this need, and functioning with general support, business uncertainty will continue and it will remain impossible for bankers or business men to plan intelligently for the future.

On no country is the present foreign exchange situation reacting more harmfully than the United States, and none is more concerned in efforts to improve it and to deal with the problems involved in the Reparation payments.

The United States Army on the Rhine

The Committee believes there is, in the United States, little appreciation of the importance to us, as well as to Europe, of the presence of our forces on the Rhine.

It should be remembered that under the terms of the Armistice, the Allied armies occupied the bank of the Rhine to prevent the renewal of war by Germany, to insure her disarmament and the payment of the indemnity. The United States assumed its part of this work in common with the armies of the other countries.

Our present forces on the Rhine number approximately 14,000 men. The French have 140,000, the Belgians 17,000, and the British 14,000 (less those sent to Upper Silesia.)

The territory occupied by our forces is not extensive, but strategically it is very important. We are represented unofficially on the Rhineland High Commission, which controls the occupied territory. There are no better disciplined or more efficient forces in Europe than our soldiers on the Rhine. They are respected everywhere for their good nature and their self-control, and they reflect the highest credit on the United States Army and on our people.

It is natural that, following intense animosity aroused by the war, the area of direct contact between the late enemies should be one in which feeling runs high and friction is almost continuous. Influenced by less intense emotion than the people of the countries overrun by the Germans, our officers and soldiers have been a great harmonizing influence and have prevented many conflicts. They command confidence on all sides and the effect of their presence in the day-to-day work of maintaining order can hardly be over-estimated.

Although acting only informally and unofficially with the Rhineland High Commission, our able representatives, who have cooperated with the Commission in the adjustment of difficulties, have nevertheless exercised great influence for good. No decision of the Commission has been made except by unanimous agreement, and none reached which was inharmonious with the views of the American representatives.

If the United States Army is withdrawn in its entirety, the important section it controls undoubtedly will have to be occupied by French troops. France would then be obliged to maintain forces along the entire length of the line, with the exception of the short sectors where the British and Belgians are in control. The feeling between the German and French peoples is intense. After long de-

lays and many evasions by Germany, France forced upon that country the realization that she was prepared to occupy so much of Germany as was necessary to insure compliance with the disarmament provisions of the Peace Treaty, and the payment of the indemnity. French action has been vigorous, and it is apparent that during recent months the hatred which attaches particularly to the French Army has not diminished. If the American forces on the Rhine are now taken away and the French administration necessarily extended, a great modifying influence will be removed, and the possibilities of further trouble increased.

There are numerous German interests which desire American withdrawal, believing that it would indicate definite separation of the United States from cooperation with the Allies. These groups believe that the sentimental effect of such action would be of great importance to Germany.

On the other hand, the majority of the German leaders with whom your Committee met expressed the hope that the American Army would remain at least until more stable conditions were established in Europe. These leaders believe that, so far as Germany is concerned, the extra cost of American forces, as compared with the others, is of minor consequence in view of the value of their presence.

It has been suggested that our army be removed entirely, while our representatives cooperating with the Rhineland High Commission remain, and that the value of our influence would thus be preserved. Your Committee does not agree with this view. The occupation of the Rhineland is military. The administration is military, and the influence of the United States is vastly greater because of the presence of our soldiers, and the respect for military forces which naturally exists in this territory following the war. If the area were occupied by Allied police instead of armed soldiers, it probably would be impossible to maintain order.

Our soldiers on the Rhine are well cared for and content, and satisfied to remain as long as our government be-

lieves it necessary. Their number is being steadily reduced as the terms of service expire or men apply from time to time to return to the United States. Your Committee believes that the size of the forces might be still further reduced, but that we should continue to maintain a sufficient number of men to control properly the area assigned to us, until such progress has been made in the establishment of peace that we may withdraw with confidence that we will not soon be called upon to decide what attitude we shall take in another European war. To withdraw our army until the outlook in Europe is clearer would be a very grave mistake.

Guarantees of Security

The conditions existing between France and Germany dominate the European situation. Similar conditions in Central Europe are of nearly equal importance. In Western Europe the French fear of future military aggression by a rehabilated and revived Germany influences the whole problem.

There is practically no dissent in any of the European countries, among those who have given the subject most thought, from the belief that if Germany pays the indemnity fixed, or anything like it, she must again show great industrial strength, even greater than before the war. Her metallurgical plants and chemical industries must be developed further. Such a Germany with a population of over sixty million people will likewise be potentially a great military power.

The speed with which countries having large industries may be turned to the production of war material, and the almost unlimited possibilities of the chemical industry as a factor in modern warfare have been fully demonstrated.

It is pointed out that Germany has millions of soldiers who have returned to civil life. She has a larger number of trained fighting men than any other country. In the

process of disarming Germany, since the signature of the treaty, great difficulty has been encountered in securing delivery of her arms and ammunition.

It is argued that the promptness with which Germany is able to place men in the field is demonstrated by the fact that, during the recent controversy respecting Upper Silesia, a force of more than fifty thousand men was assembled from nowhere in two weeks, fully equipped with machine guns, heavy artillery and airplanes.

Twice in fifty years France has been overrun by the German armies. The last war resulted in damage which Germany cannot make good and an appalling sacrifice of life.

Being now in a position to take measures for her own protection, France, with her population of thirty-eight million people, compared with her neighbor of over sixty million, does not propose to take chances on the future.

Either Germany must pay to France a substantial part of the damage she has caused, or France is economically crippled for generations. France intends that Germany shall pay. If France cannot at the same time, by some sound agreement among the nations, be assured against another German outbreak, French sentiment will strongly oppose retirement from the banks of the Rhine and will be tempted to encourage and promote the division of the separate states which now make up Germany.

France, in common with some of Germany's other neighbors, does not consider that there is a sound reason in the interest of humanity, why the present German Republic should continue, when states within its borders do not value such solidarity. There is a strong opinion in countries bordering Germany that it would make for continuous peace in the world if Germany should be broken up and rendered impotent for military action in the future.

Among those who hold this view the conviction exists that the great nations of the world will be unable to get together for the firm establishment of peace and the assurance of security which France and some of the other European nations feel they must have for the future.

The earnest apprehension which exists in France concerning the danger of a restored Germany is apparent in every political group and among all classes of citizens. Similar fear exists in Poland and Czechoslovakia.

Believing there is yet no peace, but instead, recurring minor conflicts and constant danger of the resumption of large operations, France consequently feels obliged to carry an army of seven hundred and fifty thousand men. Czechoslovakia, with only fourteen million inhabitants, has a standing army of one hundred and fifty thousand men. (On a corresponding basis, the United States would have an army of nearly one million two hundred thousand.) It is estimated that Poland has under arms two hundred thousand soldiers. Hungary, Roumania and Jugoslavia all have large armies. This military activity is in addition to that in Southeastern Europe where war between the Greeks and Turks still continues.

While the attainment of real peace in Central Europe, and in turn in Russia, presents a great problem which must soon be solved if serious economic difficulties are to be overcome, there is no escape from the fact that the relation of the restoration of Germany to peace in Europe and security for France, and Germany's neighbors, is the question which must be met first.

The mines, industries and lands of northern France must be restored before that country can enjoy real prosperity. The enormous plants and the great skill of the industrial Germany which did business throughout the world before the war must also be utilized fully before commerce between the nations can resume its normal development. It does not seem possible for either to occur, however, unless

there is peace and some promise that military aggression by Germany or any other important state will be prevented in future so far as such prevention is humanly possible.

It is essential to Germany, in her own interests, that some plan shall be devised by which France and other European countries shall be given assurance of security in the future. Some of the most important leaders in Germany frankly declare that France should have such assurance. They were unable to suggest any acceptable guarantee which Germany herself could offer, but they expressed the hope that the other countries might soon agree upon some method of meeting the situation. German leaders believe that otherwise they must live and work for years in a state of constant friction with France and the ever-present possibility of French armies occupying more territory whenever difficulties arise.

The cost of the Armies of Occupation represents a large sum of money which, under the Treaty, Germany must pay in addition to indemnities. If this expense could be cut off or reduced to a minimum, it would help Germany greatly in making payment. It would render outside financial aid to Germany much easier than under present conditions. It would likewise be of assistance to France, since it would restore to productive effort thousands of her young men now in her army whose employment as a police force represents an enormous burden, and is a drag on the whole world. The possible removal of this burden, however, depends upon some effective plan for the maintenance of peace, on which the nations shall unite.

The German Situation

As indicated, peace is as necessary to the economic restoration of Germany and the development of her power to pay proper indemnities as it is requisite to the recovery of France and her relief from intolerable military expenditures. Germany cannot pay unless she produces at her full

capacity and has opportunity to sell. She cannot so produce without raw materials greatly in excess of the quantity she now obtains. It is practically impossible for her to procure the requisite raw materials, a large portion of which she must import from other countries where the exchange is against her by a wide margin, unless she can obtain credit and her government fiscal system is placed on a very much better basis than at present.

Greater financial aid will not be extended to Germany by other countries in the measure necessary unless she can pursue her rehabilitation in peace and there is confidence that a secure central government will be maintained within the German Republic. If there is the constant possibility of breakdown and dismemberment of that state, it is next to impossible for Germany adequately to be financed.

German industries are at present operating on a basis of about one-half capacity. Some are working one hundred per cent and more, but the number whose operations are reduced is such as to bring the average down. There is, of course, considerable unemployment, but not enough under present conditions, and especially during the summer, to constitute a social and political menace. The number of men out of work seems small compared with the United States and England, but this is accounted for by the fact that in many industries there is a scheme of part-time employment and a shift system is enforced. In some lines the number of excess employees is very large. To handle greatly reduced traffic, the railways which are operated by the government carry three and one-half times the number of employees used before the war. In other government services the ratio is reported as four to one compared with the prewar period. The explanation made for this condition is that most of the men are demobilized soldiers and that if they were not employed in some way they would have to be maintained in idleness by the government.

The wages of German workers measured in dollars are very low. It is a great mistake, however, from the domestic standpoint, to consider wages in any European country with depreciated currency, except on the basis of its own money.

German workers are being paid very high wages in marks and they still regard this paper money with much of the respect they had for the old mark. Many of them fondly look forward to the time when the mark will be rated at its prewar value while they will continue to receive almost as many marks as they do now.

While operating within her own boundaries on the basis of paper marks and selling abroad in gold gives Germany some advantage in export trade, the great reduction in wages which must come when the mark rises substantially in value will bring to Germany many difficulties.

The wages paid German workers at present, even on the paper basis, are sufficient to give them a fair standard of living, although very much lower than they enjoyed before the war. During the war, and immediately afterward, the German standard represented but the bare means for maintaining life. Indeed, at times it was close to starvation. The contrast of present conditions, when the workers are able to get a reasonable amount of food, is such that they are fairly well satisfied. Their condition is so much better than that of the middle classes,—salaried employees and those dependent upon pensions or an income from savings or inheritance,—that the workers consider themselves fortunate. It is probable, therefore, that for some time to come German labor is likely to be satisfied with what appears to the outside world to be an amazingly low wage and standard of living. At present the wages in Germany permit her to produce the goods she manufactures at very low costs and to sell in the markets of the world on a basis with which few countries can compete.

This condition must change as Germany extends her foreign trade. The more she sells abroad for dollars, the more her mark must appreciate in value and her prices on the dollar basis increase.

Again, it is contended by those who have studied the situation closely, that when the new taxes become effective before the end of this year, taxes which are largely necessary to meet the indemnity, manufacturing costs must rise and the great disparity in prices which the Germans can offer in competition with other countries will be reduced.

Meanwhile the cost of living continues high in Germany,—in July prices were higher than at any time in a year,—and this may be expected to increase wage costs still further in many directions.

If the German government is not soon able to secure the financial aid necessary to strengthen her monetary system, her progress toward larger operations must be slow and the purchases of raw materials from other countries must continue to be in small quantities. This process will affect her ability to pay indemnities and inevitably carry the threat of recurring crises, with political possibilities which cannot be forecast. At the same time, if large unemployment should occur during a severe winter, internal social disturbances can hardly be avoided.

Germany must rebuild her foreign trade to pay the Reparations. This is necessary quite aside from payments to France in the form of building materials, machinery, and other commodities for the restoration of the devastated regions.

France fully realizes today the need of receiving a substantial part of the payment due her in the form of goods, and, notwithstanding reports to the contrary, your Committee is convinced that the French people now understand the practical common sense of this method of payment and largely are reconciled to it. It is true that some interests in France fear the effect on their own business of

payment in kind by Germany; nevertheless the demand by the people of northern France that the devastated regions shall be restored without delay is quite evident and cannot be repressed.

At present, along the Rhine, the Allies are requiring licenses for and imposing customs duties on all business passing into or out of the occupied area. These penalties were exacted last Spring when Germany failed to pay obligations due under the Reparations decision. The customs collected are paid to the Reparations Commission and credited against the German indemnity.

Since Germany has now agreed to the Reparations settlement there seems no longer adequate reason for the continuance of these sanctions. The system, as operated, presents the objections of troublesome interference, restriction of German ability to work and pay and likewise a waste of money because of the unnecessary employment of many officials. The operation of these sanctions is the cause of almost daily trouble, which serves to over-emphasize the strained relations between the German people and the French.

At the meeting of the Supreme Council held in Paris in August it was agreed, at the suggestion of France, that steps should be taken for the early abandonment of the present sanctions on the Rhine, and it is therefore to be hoped that this troublesome matter will be settled before the end of the year.

Your Committee is convinced that France, notwithstanding assertions to the contrary, is anxious to remove every possibility of future trouble, but the problem always resolves itself into the need of positive assurance against another attack and of payment by Germany for the damage she has wrought.

Other European countries which normally represent a large demand for goods may resume the process of rebuild-

ing and may gradually develop trade, but until the situation which now afflicts France and Germany is cured, improvements in other directions are of no great avail.

Russia, for example, may soon be reopened and reconstruction commenced there. In that event, there will be a considerable demand on other countries for raw materials and manufactured products, but the best information available indicates that Russia's recovery will be slow. The breakdown of the Russian transportation system is such that a long time will be required before facilities are available in Russia for the movement into that country of necessary supplies or the exportation of Russian commodities in exchange. Moreover, serious as the risks are in the more stable countries of Central Europe and in Germany, in undertaking financial and business enterprises, they are infinitely greater in Russia.

The capital and credit of other countries are not likely to be placed at the disposal of Russia until there is evidence of protection and safety.

If Russia could be restored promptly to production it would aid in the recovery of Germany, but this alone would not give stability to German conditions.

Central Europe and Czechoslovakia

The conditions of uncertainty and insecurity in the more important countries of Central Europe are still bad.

Your Committee was unable to visit Poland, but accurate information as to the situation there is available in every European capital.

In the United States, remote from the scene, it is difficult to realize the far-reaching effect of the conflict over the division of Upper Silesia, as well as the fear of Russia and Germany which exists in Poland.

Polish currency is greatly depreciated. The country is struggling to maintain an army of abnormal size. Her in-

ternal political condition is precarious and she is constantly engaged in quarrels with her neighbors over trade relations with them. Between Poland and the other states of Central Europe, as well as between these separate states themselves, there is a condition of confusion about transportation, tariffs, and embargoes at frontiers, which constitutes a serious bar to free commerce and holds back the reconstruction of the countries affected.

This situation is due to the same lack of confidence that exists in Western Europe, the fear of more war and inability to reform the government financial systems of the countries involved.

The settlement of the Upper Silesian problem should bring considerable relief, but this represents only one feature of the situation. There are scores of lesser adjustments which are essential before these countries can trade with each other efficiently and live together as peaceful neighbors.

With fertile fields and large and efficient industries, Czechoslovakia is easily one of the most promising states of Central Europe. Nearly seventy per cent of all the industry of the old Austrian Empire is within the boundaries of Czechoslovakia, and most of the coal and raw materials produced in the former Empire are located in the new Czech State. The fourteen million people of this country are energetic, ambitious, intelligent and enterprising. They are showing commendable capacity for self-government, but the country is nevertheless confronted with many difficulties.

The manufacturing power of Czechoslovakia is such that she can supply the wants of her own people for such goods as she produces by operating her plants to the extent of forty per cent of their capacity. To enjoy full prosperity, she must export fifty to sixty per cent of her possible output.

Before the war, the market for the steadily increas-

ing output of Czechoslovakian factories was primarily in the rest of the Dual Monarchy, *i. e.*, Hungary and Austria, where this output was protected from competition by tariffs. She sold the balance of her production largely in Roumania, Jugoslavia, and the adjoining territory. In this area she had the advantage of proximity and the facilities of Vienna as a great centrally located market in which the people of these countries did most of their buying.

Vienna supplied bank facilities, convenient transportation, and a thorough knowledge of the languages, needs and credit standing of buyers throughout this great territory. A large part of the prewar business of Czechoslovakia was transacted through Vienna and the ownership of most of her industries was in Vienna.

With the constitution of the new state and confidence in her new-found strength and power, Czechoslovakia endeavored to transfer the handling of most of this business to her own borders and to center it at Prague. With the disturbed conditions which existed all about her, she felt obliged to keep a large part of her coal which formerly went to Austria and Hungary.

With transportation chaotic, she feared to permit her freight or passenger cars to go beyond her borders. Up to the present she has believed it necessary to stop all trains at her frontiers and there transfer goods and passengers to Austrian trains and those of other neighboring countries.

This practice has led to great confusion, delay, and loss as well as continued quarrels. The authorities of Czechoslovakia point out, however, that when they attempted to overcome these difficulties by permitting their rolling stock to go into new Austria and other states it seldom returned because of the imperative needs of her neighbors. Such cars as were sent back, whenever an exchange took place, were usually out of repair and less valuable than the rail-

way equipment of Czechoslovakia, which is in fairly good condition. The result of these incidents is a high state of mutual suspicion and a constant tendency toward reprisals.

No definite commercial treaties between the Central European countries have yet been worked out. There are temporary agreements for brief periods, which are a frequent cause of difficulty because of allegations that they are not faithfully kept. It is undoubtedly true that in some instances economic conditions do not permit of their being carried out. One country will agree with another to deliver certain quantities of foodstuffs or raw materials in exchange for commodities of another character from a second state. One of the nations will make deliveries in whole or in part while the other fails to do so. Frequently this failure is due to causes beyond control, but this fact does not help the situation materially.

Austria is undoubtedly more largely the victim of these circumstances than any other country in the group, but they all suffer in a considerable degree. The result is that the business of all of them is far below what it ought to be, and the condition constitutes a grave handicap to their financial and economical recovery.

Czechoslovakia is operating to about forty per cent of her capacity. She has large modern textile plants, for example, which normally purchase cotton in the United States. She could sell substantially all of her cotton and woolen textile output in neighboring states if she could buy the raw material needed and there were such stability as would permit the extension of adequate credit to her customers. Such credit could not be made available without the application of some sound plan of financing which would help the entire area, and the success of such a plan is clearly dependent upon the establishment of peace and tranquility in this section.

These conditions can hardly be secured without the

aid and cooperation of the more powerful nations, which should be inclined to help in their own interests, because the territory represents an important market for raw materials and manufactures. These states not only desire aid of this character, but they are eager that it should be made available soon. They believe that their future largely depends upon it.

The Austrian Problem

Austria is the crux of the Central European problem and the large question it presents practically revolves about Vienna. Here is a city of two million, one of the finest capitals of the world, which was the center of operations for an Empire of forty million people.

Austria now has within her new borders approximately six and one-half million, practically cut off from free trading relations with her neighbors and no longer the recognized clearing house for their business. A city of the size of Vienna cannot be maintained easily as a going concern by so small a national population. Austria does not raise food enough to live on. She must import coal as well as a large part of the other raw materials she needs. With tariffs and embargoes on every side, the restriction of her business is obvious. Further burdened with thousands of refugees from the east, only charity from the United States and elsewhere has kept her population alive.

In the face of these vicissitudes, her improvement during the past year has been remarkable. The country is now enjoying a certain hectic activity, which is greatly influenced by the low state of her money and the bargains which the country offers to foreign buyers. The contrast of the present scale of living, although low, to that which the country suffered so long is such that her workers are reasonably satisfied.

Communism has disappeared and the present govern-

ment in spite of its many difficulties is functioning with a considerable degree of satisfaction to its people. All of the rival political parties have joined in support of the present ministry.

The most serious problem the municipality of Vienna has to deal with is that affecting nearly half a million people of the middle classes, formerly government officials, pensioners, small professional people, and tradesmen, as well as those who before the war lived on small incomes from investments. There is no need for the large official group maintained in government departments on a scale necessary to care for the affairs of forty million people. The crown has so depreciated in value that its purchasing power permits these people barely to exist. As in Germany the workers whose wages have increased are far better off than the people of this class.

The workers realize this fact and are fairly content with their lot, although a large number of them are working on a part-time basis. Under laws passed some time ago the industries are not permitted to discharge employes freely. Many of them are carrying an abnormal number of employes. The wage is so low, however, in comparison to that of more fortunate countries, that this expense is not as serious as it might appear to be, and the costs of manufacturing in Austria are low almost beyond comprehension.

Little by little the very small factories employing workers in highly skilled trades are finding themselves and increasing their output. The results of their handiwork are of such artistic value and the prices so low that the foreign demand is good.

Superficially, conditions in Vienna appear to be much better than they really are. It is not until one finds that four hundred thousand children and other dependents are still being fed daily through charity that the real situation becomes apparent.

There is reason to believe that even with its restricted territory Austria can, and will, recover and be able to maintain a life of some promise for its people, if it receives essential aid from outside in strengthening its finances and restoring its currency. A prerequisite to its future is the establishment of something like prewar relations with its neighbors.

Vienna has many advantages as a trade center for Central Europe and is so placed in relation to the transportation system that it can conduct a substantial part of the business with less expense and greater efficiency than any other nearby center. The countries contiguous to it are at last coming to realize this, and a constructive plan might be carried forward with the aid of the more powerful nations which would promise a satisfactory solution of the problem of Vienna and Austria.

Next to the restoration of peace and cooperation in the western part of the Continent, comes the necessity for the establishment of like conditions in Central Europe. One reacts on the other to such an extent that they are almost inseparable.

Austrian Indebtedness and the United States

The financial situation in Austria is most difficult. It has been the subject of study on the part of an international commission constituted as a result of the International Financial Conference, held in Brussels in the Fall of 1920. This commission evolved a plan for improving the situation, which contemplates relief for the Austrian government by a loan and by reform of its fiscal system.

The conditions have been accepted by the Austrian government, and immediate help to the extent of some $20,000,000, with additional funds in prospect, has been pledged, dependent upon agreement by the countries holding obliga-

tions of the Austrian government to defer payment of their claims for a reasonable period.

All of the countries involved, except Italy and the United States, have agreed to deferment. Italy, it is understood, has agreed to postpone her claim if the United States takes similar action. Only the approval of the United States is necessary, therefore, to make this scheme operative and give to Austria the relief required to enable her to buy food for her people to carry them through the coming winter.

The debt of Austria to the United States is in the form of obligations to the United States Grain Corporation, incurred for foodstuffs. At present no official of the United States has authority to defer this payment, but such authority is contemplated in legislation now pending in Congress. The whole program, in so far as Austria is concerned, has been delayed for some months because the United States has not acted.

The Responsibility of the United States

Today the world's business has apparently reached a dead center. It may move forward from the present point by slow, painful and uncertain steps with the result that the process of reconstruction will extend over many years. How long such movement would continue, it is impossible to forecast. No one was able to approximate the length of the most destructive war in history, and no one is wise enough to foresee how long the present condition of doubt and insecurity with its inevitable suffering and social disturbances may last.

Only by gaining the confidence of investors can the credit and capital necessary to insure normal business in the world be mobilized and used. Only the free exchange of commodities between the countries in constantly increasing volume can bring normal life to the people and the conditions they knew before the war.

The United States is regarded as the most powerful country in the world, commercially and financially. Its reputation for integrity and fair dealing is well established. In every country your Committee visited and in almost every conference in which it participated, irrespective of the occupation, official position or social status of the persons met, the opinion was expressed that neither Western nor Central Europe can be restored to a condition which promises hope and progress for the future without our active assistance.

Possessing as it does great quantities of raw material and manufactures which it wishes to exchange with other nations, the interest of the United States in accelerating a return to world prosperity is vital.

The fact is not debatable that after the part we have taken in the late war we cannot refrain from actively participating in the settlement of the economic and financial difficulties now confronting the world.

Every country desires our friendship and assistance, and it is apparent we can participate in the restoration of commerce and industrial productivity on any reasonable and consistent terms, either by modification of the Versailles treaty to meet the policies of the United States, or independently of it.

Doubtless it was the realization of our moral as well as of our financial and commercial responsibility in relieving the world's depressed condition that caused the President to call the proposed conference in Washington to consider the reduction of armaments.

Any student of world affairs cannot escape the conclusion that each of the nations, including the United States, cannot continue to expend so large a part of its entire revenue, derived from taxation which is now almost unbearable, in preparation for future war, if the present civilization is to continue. To peace and to the restora-

tion of the world's economic balance we must give our attention.

Respectfully submitted:

JOSEPH H. DEFREES, *Chairman*
JOHN H. FAHEY
SILAS H. STRAWN
R. P. LAMONT
JOHN J. O'CONNOR

JAMES H. DOUGLAS, JR.,
Secretary.

22197

END OF
TITLE